

IN THIS ISSUE

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PROBLEMS AND PROSPECTS FOR BRITAIN
FINANCING COMMONWEALTH DEVELOPMENT
TAXATION—A LESSON FROM RUSSIA

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FEBRUARY 1960

COMMONWEALTH DIGEST

and WORLD ECONOMIC REVIEW

DIGEST SPOTLIGHT

on

**SIR ROY
WELENSKY**
K.C.M.G.

PRIME MINISTER
of the
Federation of Rhodesia
and Nyasaland Serial Dept.

JUN 10 1960



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To Our Readers

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We are privileged to publish a number of messages from distinguished Commonwealth representatives in this issue. Readers will find familiar features carried on and developed. New items will be introduced and the size and scope of the journal extended as circulation grows. We would gladly send a free specimen copy of the current issue to any of your friends.

From January 20th our Editorial offices will be at 10 Upper Berkeley Street, London, W.1.

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Commonwealth Digest

and World Economic Review

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Digest Spotlight focuses on

Sir Roy Welensky, K.C.M.G.

Prime Minister of the Federation of Rhodesia and Nyasaland.

LORD Malvern's brilliant and volatile successor as Premier of a Federation one sixth the size of the U.S.A. and containing more than seven million people of different race, colour and religion is the thirteenth son of a Lithuanian Jew and his Afrikaner wife. In the pioneering days they trekked from the South by ox-waggon. It was in Pioneer Street, Salisbury, that Roy Welensky was born in 1907.

His statesmanship has been learnt in a hard school. He became a railwayman and railwaymen's leader—and heavy-weight boxing champion of the Rhodesias. Welensky was still an engine driver when he joined the Northern Rhodesia Legislative Council. He founded a Labour Party in that Protectorate.

"Commuting" by Chev. over bad roads between Broken Hill and Lusaka, "the Uncrowned King of Broken Hill"—such was then the extent of his fame—served a fifteen years' political apprenticeship. He entered the Assembly of the new Federation in 1953 and held the portfolio of Transport, Communications and Posts in Lord Malvern's Cabinet before becoming his Deputy Prime Minister in 1955. He is married, with a son and a daughter.

Of massive physique, rugged yet sometimes gentle, flamboyant and

abstemious, eloquent and courageous, Welensky is a real man and a self-made man. Occasionally petulant, he who once took on all comers for sixpence at Salisbury's street corners, pulls no punches. He has castigated British Socialists who speak of him as though he were an oppressor of black Africans and the Federation to which he has devoted his powers of leadership as an instrument of white domination. Those who would abdicate colonial responsibilities make him sick.

"It is easy," he said once, "for the politicians to talk about freedom. Freedom from what? The British presence in places like Nyasaland has brought all the things that are normally understood by freedom.

"I believe that given a reasonable chance we will work out a system here in which people of all races will live side by side. The black and white races will complement one another."

Such is the aim and principle of the Federation whose future will be considered by the Monckton Commission. In deciding to see the country and its people for himself Mr. Macmillan has shown his awareness of the part to be played by the Federation and his fellow-Prime Minister in the orderly advancement of the Commonwealth and Africa.

COMMONWEALTH DIGEST

and

WORLD ECONOMIC REVIEW

FEBRUARY 1960

VOLUME I

No. 1

Messages from High Commissioners in London

FROM THE HIGH COMMISSIONER FOR AUSTRALIA, The Rt. Hon. Sir Eric Harrison, K.C.V.O.

Australia, a continent of about 3 million square miles, is all too often thought of only as a vast, sun-drenched source of primary production. That picture is long out of perspective. With imports totalling £A796,700,000 and exports £813,800,000 (1958-59 figures), and a virile migration policy that, since 1946, has added 2,250,000 to the population—now past the 10 million mark—the Commonwealth is attracting more than £A100 million a year in British (64%) and American capital. For contrast with the wool, wheat and meat output, there is the impressive record of secondary industry, as told, for example, by steel manufacture (about 3 million tons a year) and motor-car production (110,000 vehicles a year). Australia is, in truth, industrially alive in every sense of the word.

FROM THE HIGH COMMISSIONER FOR CANADA, Hon. G. A. Drew, Q.C.

It is a pleasure to me to welcome the *Commonwealth Digest and World Economic Review*, and to know that while the title has changed the contents of the *Economic Digest* will continue to be available. The *Digest* has performed a most valuable service in making available to the busy executive key information and statements on economic developments in the Commonwealth, Europe and elsewhere; I am sure that the new title reflects both the growing economic importance of the nations of the Commonwealth and the increasing interdependence of the world as a whole.

I should like to take this opportunity to wish you and your readers every success in 1960 and the years ahead.

31st December, 1959.

FROM THE HIGH COMMISSIONER FOR CEYLON, Mr. P. R. Gunesekara.

The *Economic Digest* has undoubtedly played a useful role in presenting each month a collection of reports and essays on various economic issues of significance. Economics is no longer a subject of abstract study: It is playing an increasingly larger role in the world today. In the under

developed parts of the world in particular there has been a marked increase in the value attached to economic studies, for the improvement of living standards in these countries depends primarily on the application of economic sense. My country in its efforts to provide for its people a better standard of living has profited by the researches and studies of economists in many parts of the world. I am sure that the *Commonwealth Digest and World Economic Review* will be welcomed by the growing ranks of those who may be termed as students of economics in all parts of the world.

28th December, 1959.

**FROM THE HIGH COMMISSIONER FOR GHANA,
E. O. Asafu-Adjaye.**

NEW YEAR'S MESSAGE

It is with great pleasure that I take this opportunity to congratulate you on your past achievements and to express my most sincere wishes for ever greater efforts during 1960. As a new country which has only recently won her political Independence Ghana is determined to achieve her economic independence as well. It is, therefore, my fervent hope that with the change of your title to that of *Commonwealth Digest and World Economic Review*, you will find it possible to concentrate to an even greater degree on the economic potentialities of the emergent countries of the Commonwealth, especially those in Africa. To that end may I wish you a happy and prosperous New Year in all your undertakings.

4th January, 1960.

FROM THE HIGH COMMISSIONER FOR INDIA,

The 1950s were a period of reconstruction and consolidation after World War II, particularly in Europe. The economic development of countries with vast populations living on an extremely low real income is the most urgent task now facing the world. This responsibility is now widely recognised and there are strong indications that, in the decade which we are about to enter, there will be a quickening of interest in such economic development. Several parts of the Commonwealth will benefit from this urge. The Commonwealth will also have an important contribution to make. It shows foresight on the part of *Economic Digest* to change its title to *Commonwealth Digest and World Economic Review*, emphasising these dynamic trends. I have much pleasure in wishing *Commonwealth Digest and World Economic Review* many years of useful activity.

29th December, 1959.

Vijaya Lakshmi Pandit.

continued on page 35

Commonwealth Survey

(1) FINANCING COMMONWEALTH DEVELOPMENT

ONE of the most important questions considered at the Commonwealth Trade and Economic Conference held in Montreal last year was the possibility of creating some new institution to finance the growing need for capital in developing Commonwealth territories. The setting up of a Commonwealth Development Bank was discussed at some length and it was finally agreed that after decisions about expanding the resources of the World Bank and the International Monetary Fund had been taken, further joint studies to consider the role of a new Commonwealth institution to finance economic development specifically in the Commonwealth should be undertaken.

Since then, the capital of the World Bank has been doubled, thus placing a further 9,000 million dollars at their disposal. In addition, the governors of the World Bank have agreed to set up an International Development Association to assist development in those areas not deemed credit-worthy in the ordinary sense. The European Economic Community has also under consideration the question of aid to the under-developed areas as a matter of urgency. These are welcome signs that the problems of the have-not countries of the world are being given a high priority by the Western nations.

United Kingdom's contribution

The part already played by the United Kingdom in providing finance for Commonwealth economic expansion is by no means negligible. The estimated expenditure for the Colonial territories alone for 1959 was in the region of £100 million of which it was estimated public funds would contribute about one-half. The total contribution from the United Kingdom for the Commonwealth as a whole was estimated to be $1\frac{1}{4}$ per cent of the national income. Moreover, Colonial governments can now borrow money on the London Market and increased facilities are also available through the Export Credits Guarantee Department.

Though large sums are involved, they are not enough. The provision of capital for development is a prime need and if the United Kingdom is unable to provide sufficient in the way of resources, then nations within the Commonwealth will turn elsewhere and indeed this is already apparent. Why then is there reluctance on the part of the authorities to set up a specifically Commonwealth institution to provide the necessary capital?

The answer to this question has been made clear. The existence of a new organisation will not of itself provide any additional capital. To provide such an institution with

From The Monthly Bulletin, Commonwealth and Empire Industries Association, November, 1959.

adequate resources this would have to come from sources already providing capital and would merely compete with them for existing resources.

A Stake in Development

Suggestions have been made that a way should be found to enable people within Britain and the Commonwealth to invest in economic expansion by weekly savings specifically ear-marked for Commonwealth purposes. Such a scheme, if backed by governments and launched in a really imaginative manner might well provide a source of capital for investment which could make a contribution well worth having. This would have the advantage of giving the ordinary citizen a stake in Commonwealth development and at the same time encourage savings. It is of interest to note that at least one trade union in Britain is on record as supporting such a scheme.

Further examination of the possibilities reveals that there are other aspects of the question which have not been given the consideration they deserve. In the first place, consider what it is that the under-developed areas require. The answer is clear, their main requirements are for capital equipment of all kinds needed to develop their own resources. The next question is—could the United Kingdom increase the production of such equipment? In the heavy goods industries there

is a large amount of unused capacity. Most of the "black spot" unemployment which still exists is to be found in areas which produce capital goods. While consumer industries are flourishing, these "black spot" areas where there is still unemployment present an intractable problem.

When the problem of actually providing the equipment needed is examined we find that the capacity to produce is *potentially* available. If finance could be made available to enable the Commonwealth countries to buy it, then the means of actually producing it is readily available.

Unused Capacity and Need

If a Commonwealth Development Bank were established which had the means of closing this gap between unused capacity and need, this would not only assist in solving the problem of under-production in a vital sector of our own economy, it would also make available to Commonwealth countries the equipment they so badly need for expansion.

If this assessment of the position is correct, then it should be possible to find a solution. If a new Commonwealth Bank were provided with its basic working capital by relatively small contributions from the various Commonwealth governments, reinforced by savings from ordinary people, and were then given authority to create the additional finance needed without recourse to

existing sources, then it could begin to put unused capacity to work and the resultant production would find a ready market.

The possibilities could be further extended. There is not only unused capacity in the United Kingdom. It also occurs in other Commonwealth countries. A Commonwealth Development Bank so constituted as to be able to provide the necessary link between unused capacity to produce and unsatisfied demand would have an increasingly important role to play in ensuring that available resources were fully utilised to the best advantage. It would be essential for this authority to draw up a list of priorities so that schemes of development selected would in the first place be those most likely to strengthen the economy of the Commonwealth as a whole. Great care would have to be taken to ensure that in providing new capital for development and expansion, there

was no tendency to over-estimate the extent to which unused capacity could be brought into production and utilised. New capital provided must be adequately supported by goods which otherwise would not have been produced. Close co-operation between the new authority and the Central Banks of the territories concerned would be essential.

A Commonwealth Development Bank constituted in this manner could capitalise Commonwealth resources and thus make it possible for the Commonwealth to play its proper part in assisting those in need among the family of nations. Obviously a great deal more thought is needed before such a plan could be launched, but investigation along these lines might prove to be of value in mobilising the resources of 660 million people living in an area of 12 million square miles, thus raising the standard of living in a significant portion of the free world.

(2) COMMONWEALTH AND FOREIGN AID TO INDIA

by KRISHNA MENON (Minister of Defence and leader of the Indian delegation to the U.N. General Assembly).

THE total quondam of dollar aid, American Aid, that has come to India is to be spoken of as eighteen hundred million dollars in ten years. Out of this eighteen hundred million dollars, four hundred and eighty is Aid. The rest is either American expenditure of two hundred millions on their own, from their own

pockets, or our own money—that is loan money. The next is the Russians, where we have systems of loans which are very much to our advantage. That comes to about eight or nine hundred million dollars in the last four or five years. Next comes the largest slice of Commonwealth Aid, which is Canada—larger than Britain.

(3) AUSTRALIAN DECIMAL CURRENCY EXPERIMENTS

TWO State schools in Victoria, Australia, have been conducting experiments on the aptitude of children in working with a decimalised currency. Results reported at a meeting of the Australian Decimal Currency Committee appointed by the Federal Government to examine the merits of a decimal currency indicated that the children showed great facility in calculating when they used a decimal system. Experiments in other fields are being planned. The Committee has conferred with the Australian Society of Accountants, the Victorian Retail Traders' Association and the Life Officers' Association for Australasia

and most of the witnesses examined have advocated the introduction of a decimal currency. In view of the fact that nearly all the world outside the sterling area and a number of countries within the area are already using decimal currencies it would be very surprising if they had not done so. India is advancing still further on the road towards complete adoption of the metric system of weights and measures. For more than a year it has been in use in the cotton, iron and steel, cement, paper, salt, engineering, coffee and jute industries. From April next it will be introduced for customs and excise duty purposes.

From Commonwealth Producer, November-December, 1959.

(4) AUSTRALIAN PRODUCTION

Some Comparative Figures

	1948-9	1958-9
Ingot Steel	1.178m. tons	3.195m. tons
Cement	1.031m. tons	2.491m. tons
Brown Coal	7.027m. tons	12.338m. tons
Clay Bricks	617m. tons	959m. tons
Super Phosphate	1.423m. tons	2.124m. tons
Sulphate of Ammonia	53.200m. tons	117.8m. tons
Acids:		
Sulphuric	585,000 tons	963,000 tons
Nitric	3,292 tons	15,328 tons
Hydro-Chloric	3,110 tons	3,751 tons
Electric Motors (all h.p. groups) ..	298,854	1,308,068
Tyres:		
Pneumatic motor	2.721m.	3.916m.
Motor tubes	1.535m.	2.616m.
Electricity:		
Hydro	1.378m. kwh	3.808m. kwh
Thermal	7.675m. kwh	17.323m. kwh

Figures from official records

From News from Melbourne, November, 1959.

(5) BRITAIN'S FAVOURABLE BALANCE OF TRADE WITH HONG KONG

HONG Kong buys more goods from Britain than she sells in Britain. So far the balance in Britain's favour is:—

1946-48	£23,600,000
1949-51	£53,500,000
1952-54	£68,000,000
1955-58	£55,000,000

A total contribution to Britain's prosperity of over £200,000,000— or more than £20 per head for every man and woman in Britain's manufacturing industry.

Issued by The Hong Kong Committee Information Service.

(6) AMOUNTS AUTHORISED FOR U.K. LOANS AND GRANTS TO STERLING COMMONWEALTH

(Excluding direct investments by U.K. firms)

	1954	1955	1956	1957	1958	Annual Average 1954 to 1959	
						1st half	1st half
Private Loans							
London Market*	... 86.6	63.3	66.6	84.8	78.9	27.7	74.2
Commonwealth Development Finance Company ...	5.5	3.0	3.7	1.0	1.5	0.2	2.7
	92.1	66.3	70.3	85.8	80.4	27.9	76.9
Public Loans and Grants							
Colonial Development and Welfare Acts ...	15.6	21.7	32.0	19.1	20.0	12.5**	21.9
Colonial Services Vote***	28.4	22.4	18.6	21.1	24.3	11.3	23.0
Export Credits Guarantee Dept.	10.0	—	15.0	—	28.5	13.0	12.1
Other loans and grants***	9.1	7.1	8.2	9.1	9.9	4.9	8.8
Colonial Development Corp. ...	6.4	8.2	20.5	5.0	5.0	7.1	9.5
Disbursements from U.K. (18%) subscription to World Bank ...	2.3	2.7	6.7	15.1	16.8	14.8	12.2
	71.8	62.1	101.0	69.4	104.5	63.6	87.6
TOTAL	163.9	128.4	171.3	155.2	184.9	91.5	164.5

* Excluding Commonwealth Development Finance Company, though it draws funds from the London market. Also excludes conversions.

** Notional figure representing one half of C. D. and W. Vote provision for the year.

*** Disbursements, based on financial year figures.

From Bulletin for Industry (Information Division of the Treasury), October, 1959.

Problems and Prospects for Britain

From the second of two papers by

C. F. CARTER, M.A., Stanley Jevons Professor of Political Economy, University of Manchester, read to the Royal Society of Arts on Tuesday, 1st December, 1959, with Sir Philip Southwell, C.B.E., M.C., Director, Kuwait Oil Co. Ltd., in the Chair.

WE have it in our power to become a great deal richer, and at the same time to improve our chances for the future by renewing some of our basic services—roads, railways, housing, and so on. But I doubt if we shall seem, to a visitor from Mars, very rational in using our extra wealth. There is (as Professor Galbraith has recently been reminding us) a persistent disparity between our willingness to provide, by personal expenditure, for direct needs like food and clothing, and our willingness to provide by taxation for communal needs. It is disgraceful, but apparently inevitable, that the slums of Glasgow, the industrial squalor of the Black Country, the coal tips of Lancashire, the Victorian prisons, the workhouses turned hospital, the decaying schools should persist in a land which thinks nothing of brightening its existence with television, football pools and other inessentials. But I do not foresee in the next twenty-five years an improvement in the willingness to be taxed. Perhaps the most we can hope for is more resolute leadership in insisting that some of these evils should be lessened

It may seem to some of you odd that I should discuss what may happen between now and 1984 without

reference to political trends. It is, of course, not wholly irrelevant what party is in power. Conservative Governments are likely to give business men a sense of security, encouraging long-term planning; Labour Governments are likely to be less inhibited in the choice of corrective measures in times of difficulty. But it would be a mistake, I think, to suppose that economic progress is heavily dependent on forms of ownership. The dependence on forms of organization may be much more direct. The Labour Party has, as I think unfortunately, identified public ownership with organization at a national level, and has thus tended to create bodies too big for effective management and lacking the stimulus of a competition of ideas. Some branches of private industry may likewise be getting too big, though in the private sector the inefficient monopoly seldom enjoys an assurance of a quiet life. It need not be assumed that the Labour Party will repeat in the future its past error; it would certainly be an advantage if public attention could be directed to the real issue of management structure, rather than to the side-issue of ownership.

Disarmament?

I have so far found no obstacles to the considerable improvement of national wealth between now and 1984. But it is worth remembering again what enormous uncertainties attach to any prediction. Disarmament could make a great difference, or a technical change in armaments which raised or lowered their cost. Changes in the developing countries of Asia and Africa are impossible to foresee, but certain to be of major importance; in particular, we shall need to adapt ourselves to whatever economic policies are chosen by newly independent countries. We do not know what people will choose to do with an increased income: will they seek larger homes, or more luxurious furnishings, or more amusements? What crazes, like those for hi-fi and tape recorders, will suddenly develop? What mistakes of policy overseas (such as might permit a slump in the United States) will affect the British economy?

These (and many others) are things which may affect the regularity and rate of progress. It is still more difficult to say whether on the average our resources will be in excessive demand, so that there will be constant upward pressure on prices, or whether we shall again find unemployment of labour the main difficulty. I see no reason to think that we shall allow really heavy unemployment, 10 or 15 per cent, to occur; but the trouble is that nowadays we regard 3 per cent or

4 per cent as 'heavy', and it is very difficult, perhaps impossible, to regulate the economy so closely that unemployment is always below 2 per cent but there is no inflation. In the long view of history, inflation seems a likely danger; on the other hand, swift technical change is liable to create pockets of unemployment, and it is quite possible to conceive of a period in which we shall suffer both from unemployment and from rising prices simultaneously. It is wise to recognize that our powers of control over the economy are imperfect and in part untried, and we should not assume that the experience of the 1950s will be a good guide to the 1960s or the 1970s.

Whatever rate of increase of production we achieve, it seems to me likely that a considerable part will be used up in offsetting the disadvantages of our urban existence. For instance, the growth in the number of motor vehicles means that an immense effort is needed to prevent a continuous slowing-down of traffic. Against the increase in the standard of living of a wage-earner who for the first time buys a car, there must be set the decline in the standards of all those who must go more slowly because an extra car is on the road—or else the decline in standards necessary to release resources to be used on road improvements. It seems to me very doubtful if it is possible to conceive of any plan for road improvement which will avoid hopeless congestion in the cities, for we have so large a population in

such limited areas. By heavier taxation or by regulation, something may have to be done to keep down the number of motor vehicles or to restrict their use in crowded areas—both changes for which public opinion is certainly not yet prepared. Yet in the absence of such action, there may be a very serious reduction of the real benefit to individuals of our extra wealth.

Other examples of such a reduction can be suggested: for instance, the tendency of improvements in health services to frustrate themselves by increasing the numbers of people who believe themselves to be sick. I must again remind you, also, that even where a real and large increase in material goods or services has been created, we may not be any happier, nor will human life necessarily be more dignified, beautiful or cultured. The real problem of 1984 is not the danger of economic failure but the danger of spiritual failure.

Economics no mystery

Perhaps you are asking yourself what there is in the two lectures I have given which might not have come from anyone with a reasonable knowledge of the more serious papers. Economics is not a mystery, like medicine, whose practice is limited to the trained and registered members of a craft. It is an attempt to think clearly and systematically about very familiar everyday things, to recognize true sources of information and know how to use

them, to keep in the mind interconnections and complexities and distrust the spuriously simple solution. Those of my profession have no right to be heard with respect except that we make it our full-time job to study in the round what others know more fleetingly and partially.

Yet as you look at the prospects of the British economy you may like to remember that we are fourteen years from the end of a second great war, and in fourteen years from the end of the first war we had experienced long-continued mass unemployment, taking us to the trough of the worst depression the world had ever known. There is something more than luck in our change of fortunes; there is also a notable piece of economic clear thinking, which broke through to the consciousness of nations in the expositions of John Maynard Keynes. Governments no longer, as they did in the 1920s and 1930s, meet depressions by measures which make them worse.

As the nation and its individual business units meet the shocks and unexpected changes of the next twenty-five years, they are likely to need more economic clear thinking. They will not get it unless more men of ability can be persuaded to enter the profession, and unless economics and the other social sciences receive some greater but still tiny fraction of the endowments now available to the natural sciences.

Better Output and Greater Reward

by ANTONY VICKERS.

ALTHOUGH politicians of all parties seek to raise the standard of living, if the national output remains static then greater reward for some can only be secured if there is less reward for others. Only by increasing the total output can every section benefit a bit, whether in terms of higher salaries, wages and dividends and, in some cases, lower prices.

In order to increase production all of the experts agree that higher capital investment is required, and in some cases a productive wage earner may have as much as £100,000 of capital equipment behind him, so making it possible for him to have an output of 50 times his earnings. Some sections of industry lend themselves much more readily to high capital investment than others, as for example, however much capital equipment he might have behind him, a waiter in a restaurant can only serve a certain number of people without his service deteriorating. His productivity cannot be increased.

Savings

The provision of capital equipment necessarily implies savings, so that not all of the productive capacity is used for providing consumer goods and services. Admittedly, when people think of savings their

minds usually turn to money savings. If Jones can save £1 a week for his insurance premium, the insurance company can lend that amount to some worthwhile borrower to acquire capital equipment and so increase production.

It is, however, equally true that if fewer men are required to meet a particular demand then, theoretically, those men represent the opportunity and the potential means to produce more of something else that is needed. Unfortunately, this is the point where general agreement ends and orthodox thinking is sufficiently unconvincing that, instead of the surplus manpower and capacity producing more, output is restricted by both capital and labour and reduced to the level of the effective demand.

Consider for a moment the nation that is, perhaps, most blessed with natural resources and the means of turning them to the use of mankind, namely, Canada. This is what a leading Canadian financial paper said just recently:—

‘One of the facts of economic life is becoming more and more obvious: there is now a surplus of just about every commodity produced in this world—a surplus which, short of a war, will threaten production and prosperity at least throughout a good part of the sixties’.

From Shipping, for January, 1960.

Output restricted

No wonder million of tons of shipping lie idle and, instead of modernizing the economic system to enable the increased capacity to be produced and purchased, the wheels of production are slowed down and output is restricted. Under such circumstances no section of the community can receive more unless another receives less. No wonder there are the seeds of industrial strife! It is only necessary to consider the surplus capacity and potential labour redundancy in Britain's collieries, railways, cotton mills, shipyards, shipping and heavy engineering, to realize that the problem of the so-called surpluses is perhaps the most vital that confronts the free nations. Particularly is this so when a large proportion of the under-developed countries are suffering from shortages, which the Communist bloc are seeking to exploit.

Three lessons

The first lesson to be learned should be that it is useless to produce unless there is the ability to buy or a genuine desire for nations to make free gifts. The general idea that all would be well if a nation's surplus capacity could be exported becomes quite unrealistic when every nation is trying to do the same, except those who have no means of paying for the things they wish to import.

The second lesson that needs clear understanding is that purchasing power is largely distributed

through salaries and wages. Thus, as capital investment per producer increases, the value of the individual's output may be as much as 50 times his earnings, although the cost of production does not fall correspondingly because of the necessarily higher costs for capital replacement and interest. On the one hand, therefore, the capacity to produce of a 'high capital' company becomes greater, but the ability of its personnel to consume becomes steadily less. In a fully automatic factory there may only be the administrative and maintenance staff with relatively low purchasing power. As has been said so often, automatic machine tools have no purchasing power! The fact that many companies operating under such conditions steadily increase the number of people employed, is no real answer, if, elsewhere in a large proportion of industry, surplus capacity, redundant manpower and restriction of output continues.

The third lesson, it is suggested, is to recognise that, in 'high capital' industry, purchasing power cannot be sufficient to buy the equivalent value of output without raising the cost of production above the selling price. Hence, either the deficiency in purchasing power will have to be made good in other directions, such as financing the capital equipment and modernization programmes of the nationalized industries, providing for the Welfare State, or output will be restricted in one way or another. For the Government to try and persuade industry to put up

new works in high unemployment areas would not appear to offer any solution, unless the demand for the product exists.

In the Second Report of the Cohen Committee it is stated that for every £100 of goods and services produced, it required, in 1958, £37 of money in circulation to consume them. Thus, if each man rendered redundant or 'saved' were usefully employed producing something else, his output—taking the average for British industry—would be about £1000 a year. But, unless there is an additional £370 of purchasing power this £1000 of potential goods and services will remain unproduced. On the basis of 70,000 persons being rendered redundant each year, due to the full and effective use of modern equipment, some £249 million of new money would have to be created and introduced into the system annually. This might best be done through the below-the-line items of the National Budget in respect of the railway modernization programme, roads, power stations, schools, hospitals, etc.

Full use of resources

The main objective of monetary policy should be to provide a convenient means of payment and exchange, such that the full resources of the nation may be used and the purchasing power of the £ kept stable. So long as there is unused productive capacity in industry it means that costs of production will be higher because the same overhead has to be carried on a lower output. Clearly the £ will be stronger when costs of production are lower, thereby making industry more competitive in the overseas markets from which Britain has to import and pay for so much raw material.

There is little doubt that output could increase more rapidly if monetary policy were as modern as present day techniques of production, and hence not only could greater rewards be enjoyed all round, but the anxieties and hardships of redundancy could largely be eliminated. The helping hand to the Commonwealth and the under-developed nations could be so much greater.

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TAXATION

(1) A LESSON FROM RUSSIA

ONE of the most remarkable facts of the Twentieth Century is the grip taken on Western Civilization by the "heavy progressive income tax" which Karl Marx envisaged as a means of making "despotic inroads on the rights of property, and on the conditions of bourgeois production. . . ."

A second equally remarkable fact is the way Soviet Russia has steered itself from the booby trap and has thrown aside basic communist doctrine: from each according to his ability, to each according to his need.

In the United States heavy progressive income taxation is justified on the principle of "ability to pay." We can read in an economics best-seller the comforting words that "the income tax, despite high marginal rates and frequent warnings of the damage these may do in impairing incentives, has so far had no visibly deleterious effect."

Premier Khrushchev, on his visit in October, showed greater perception. He frankly pointed out to the President how the U.S. tax system takes away incentives and stifles increased productivity. He remarked that the Russian policy is to provide generous incentives to make people want to work harder. The Soviets found that, without a proportionate reward, the superior man does not put forth the superior effort of which he is capable. Mr. Khrushchev has confidently predicted that their per-

capita output will exceed that of the U.S. by 1970.

Broadened opportunity

A number of western countries—Germany, Canada, Australia, and the United Kingdom—have broken away from the extremes of personal income taxation. They have also seen the spirits of their people respond to broadened opportunity. But it is the Soviets who have the lightest income tax among major nations. They plan to get rid of it entirely and to pack the whole cost of government into prices paid by consumers.

Few people here would advocate chucking income tax overboard, though it should give us pause that (1) our personal rates reach up to the highest in the world; and (2) we rely on income taxation for an abnormally high proportion of federal government revenues.

Business groups at various times have advocated a low-rate federal sales or excise tax, to shift some billions of tax burden from production to consumption. But no action along this line has been taken. The House Ways and Means Committee is studying the possibility of getting federal income tax rates down and making up the revenue loss by closing so-called tax loopholes. But this approach, while recognizing the way extreme rates develop irrepressible leaks in the tax system, still would leave the bulk of government revenues assessed against work and capital accumulation.

(2) TAXATION AND PRICES

GOVERNMENT spokesmen, reinforced by the Cohen Committee, have been exhorting industry to reduce prices. It is to the credit of some larger manufacturers and retailers that they have made a start in reducing the prices of their merchandise, this at the expense of their profit margins. But if there is to be any general move in this direction, something more than exhortation will be required, and the Chancellor of the Exchequer would be well advised to consider the part that taxation plays in inflating costs and therefore in keeping prices at a high level.

Taxation was originally devised as the mechanism for collecting the necessary funds from the community to enable the Government to pay for services of a communal nature which were felt to be necessary for the general good. The farmers, engineers, tinkers and tailors and other producers of goods and services must forgo some of their income to enable the non-producers, the soldiers, sailors, policemen and judges to have their proper share in the wealth available. Taxation today still serves this end but also plays a far more significant role. "A modern budget" said Mr. R. A. Butler "is designed to release or control spending in this or that part of the body economic, so that we can expand without the evils of inflation or deflation." It is this aspect of fiscal policy which is now the more important. It is with this in mind

that the present high level of taxation should be examined.

War-time Finance

Two world wars have resulted in a tremendous increase in both direct and indirect taxation. Under war conditions, the output of consumer goods is drastically curtailed while at the same time the amount of money in circulation is greatly increased. Penal rates of taxation, together with direct physical controls on consumption are put into operation to prevent the pressure of consumer demand on the inadequate supply of goods and services. When war is over, the direct physical controls are gradually removed but penal rates of taxation remain. What is the effect of this?

It is obvious that taxation, both direct and indirect, becomes a serious factor entering over and over again into the costs of production. Every producer of wealth has to meet taxation in its various forms through the taxes it pays directly to the Government and indirectly through many different channels. The resultant price charged for the goods and services provided must reflect these costs. Prices charged for goods and services must accordingly be significantly increased. It is difficult to obtain any very exact estimate of the extent to which the element of taxation entering into costs results in higher prices. Obviously this varies from industry to industry, those subject to purchase tax being more affected than others. But it is

clear in every case that taxation in all its forms has a very considerable impact on costs and must therefore affect prices.

Government Expenditure

This means, in turn, that governmental expenditure is increased. The Government is a great spender, whether for wages and salaries, or expenditure for education, housing, welfare services and many other activities carried out under Government auspices. Payments made for these services and indeed for all purchases must include a very high element of inflated costs and prices. Thus, the Government finds itself in a grave dilemma. It has to continue to tax at penal rates to obtain enough to meet these essential services at the prevailing level of prices.

Let us imagine (what is, of course, in practice an impossibility) that following a war the Government undertook not only to remove the wartime direct physical controls on consumption but also to bring down war-time penal levels of taxation to pre-war levels. If we assume that this reduction in taxation was passed on by producers and retailers to the consumers in reduction of prices it might well be found that the reduced amount collected in taxation would enable the Government to meet the greatly reduced bill which they would have to meet at the new level of prices!

Is it possible, even if this could be done, to suppose that producers of wealth and retailers would, in fact, pass on the reductions made

possible in prices charged? The fact that an effort in this direction has already been made is encouraging and leads to the supposition that with real incentives the movement would become general. It might be possible to provide additional incentives to those who carried out this policy and penalties on those who failed to bring about an equitable reduction in prices.

Penal rates of taxation, entering over and over again into costs inevitably lead to inflated prices and therefore to the necessity for continual penal rates of taxation. Unless some way is found to "untie the knot" we shall be saddled with high taxation for ever and we shall hold back the full development of productive industry. It is essential to give encouragement to those who have the ability and initiative to increase production. The best way to do this is to allow them to have as much of the money they earn as possible, otherwise we "kill the goose that lays the golden egg". When the reward for enterprise and initiative in industry can be seen to result in no worth-while return to the individuals concerned, can we wonder if they fail to make the increased effort? This results in a decrease in the wealth available to the community.

It may be suggested that this policy, resulting in people having more of their own money to spend and at the same time a reduction in the price level would have an inflationary effect. There are several ways of obviating this. In the first

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place, more of their own money in people's pockets, coupled with reduced prices, could mean a considerable reduction in the need for both welfare and subsidies. These account for a good deal of Government expenditure and would be rendered less necessary as time went on. Secondly, more incentives would result in an increase in production and this would take care of inflation in the long term. In the short term it might be necessary to encourage savings and investment, thus giving people a greater opportunity

of having a stake in the continued prosperity of the country. Recent savings figures encourage the assumption that these could be greatly increased given the right incentives.

Additionally, there would be the value of the reduction in price levels in our overseas trade, a factor which Britain can never afford to overlook.

For all these reasons it is to be hoped that in the coming year the Chancellor of the Exchequer will reinforce exhortation by action on the right lines.

Commercial Aviation in the Next Ten Years

TEN years from now, declared Mr. Masefield, President of the Royal Aeronautical Society, cruising speeds three or four times higher than at present can be expected (2000 miles per hour or even more) thanks to planes three times faster than sound. Flights from London to New York will take a little over two hours and *the traveller leaving Europe will reach America three hours beforehand*. Different types of aircraft will compete with each other and the DC 7 (350 m.p.h.) which has beaten the DC 6B (300 m.p.h.) is already superseded by the turbo-jet. The policy of those companies anxious to remain in the forefront has cost them 10 billion Swiss francs. It is almost certain that this will happen again in seven years' time when the supersonic era sets in. Many piston engine aircraft which will have ceased to be competitive from the point of view of speed will remain so, economically speaking.

For them speed matters less than low working costs.

Short range transport

The helicopter may be a paying proposition in the next ten years for flight ranges below 300 miles. At the moment it is a too expensive means. As to the problem of transport *between airport and town*, which adds quite a bit to the time of flight, it will be solved by *motor-roads*.

Freedom of the air

In ten years' time, bilateral agreements from country to country, technical and economic handicaps, will probably have disappeared. There will certainly be a total of 100 million plane passengers in 1960 (90 billion passenger kilometres); and in 1970 this figure will be trebled. At this time, exception made of the expensive supersonic plane, the journey from Europe to America will cost less than 400 Swiss francs.

The Cult of Ignorance

"Seeing, they see not; hearing, they hear not, neither do they understand." —MATT. 13/13.

AN observer of the contemporary scene may be pardoned the speculation whether there has ever been a time in the history of the world when such colossal dangers to the human race have been matched by such a colossal indifference. We live in desperate times; yet so very, very few people seem to grasp the significance of events or care about the outcome, anyhow.

'Whom the gods destroy, they first make mad . . .' is a rough translation of an old Latin tag. The kind of madness that almost seems to have been visited upon our generation is the cult of ignorance. In the face of impending disaster, there is a wilful, perverse determination not to face facts, a refusal to recognise the danger or know the hour of visitation. No generation, surely, has ever buried its sanity more deeply in the sand of non-comprehension!

Portents of growing danger

Whatever we have at the moment of peace, well-being and prosperity is spread before us like a Damoclean banquet: in the very moment of our enjoyment the sword of great evil is suspended by but a hair above our lives. The editorials of this paper have hammered away at the gathering signs and portents of the growing danger; but from ministers of Cabinet to the voter who puts them in office, there has regrettably

not been a response of urgent or understanding concern.

Where there is an awakening at all, it is frequently on too narrow a front or is even well meaning but misplaced concern. The great fear of hydrogen bomb warfare looms large and ominous in many minds today, but while the public mind is briefed on this threat, not a word is said about the far deadlier developments of chemical and biological warfare, which could stealthily wipe out an entire population.

Or again, while the threat of World War III is used to coerce and to intimidate the millions on both sides of the Iron Curtain, never a word is said of the sinister scheming and shameless chicanery of those who manipulate world finance and use wars and rumours of wars to further their own designs. There is an underside to history and to contemporary events and much that seems accidental to the casual eye, is found on deeper examination to have all the marks of satanic design.

Corrosive ideas

While Russian Communism is headlined in our daily newspapers as the great and terrible threat, nothing is heard of the slow and insidious infiltration of Communism's corrosive ideas in our culture, our art, our economics and our politics. Militaristic Communism is not half the threat to us that another

From Mirror (New Zealand), October, 1959.

form of Communism is: the slow but steady growth of totalitarianism and the concept of the all-powerful State in our own political structure right here in New Zealand.

Of all the departments of modern knowledge, the subject of economics has been least submitted to the discipline of ethical scrutiny. The medieval church had strong views on usury, the just price and the sin of avarice. In this sphere, the church of today seems lacking in a sharp edge of social concern. The creation of credit-money by private banking institutions, the charging of interest on such artificially created money, the whole system of debt in perpetuity and its fundamental evil, the unstable measure of value in modern finance

—for how much longer shall these matters be hidden behind the cult of ignorance? There is no darkness like the darkness of ignorance. The only hope of the race lies with enlightenment.

'Some day fear will vanish from the earth,' writes Arthur Findlay in his arresting and cogently written book, *The Curse of Ignorance*, 'fear of disease, fear of death, fear of war, fear of want—but this will only come as man increases his intelligence and wisdom. Meantime, all that each one of can do should be directed towards helping forward the coming of a better and a wiser way of life.'

The time for such personal contributions is frighteningly short.

Truth, Unity and Peace

An extract from an Encyclical Letter of Pope John XXIII, 1959.

From a translation by the Rev. H. E. Winstone, M.A., from the Latin as published in *L'Osservatore Romano*, July 3, 1959.

Now if it is really our aim and desire—as surely it must be—that all classes of citizens achieve this longed for mutual understanding, then we must do all in our power to ensure that every man, however low his state in life, can reap the reward of his own sweat and labour, earning his own living, and making in addition honest provision for the future well-being of himself and his family. This will entail courageous planning and the joint efforts of the State and of private individuals. Then, too, there are

many practical benefits which this modern age of ours has brought into general use. The enjoyment of these should not be denied even to those citizens of more slender means.

Men and Brothers

In particular we appeal to employers and managers in the various branches of industry, to those men who exercise control over the fortunes and sometimes the very lives of their workers. We exhort them

earnestly not just to set a monetary value on the work of their employees, not just to safeguard their rights in the matter of wages, but really to treat them as men, indeed as brothers. They must also in all justice and fairness guarantee their employees an ever-increasing share in the profits which accrue from the work they have done, so that they are made to feel that they themselves are partners, as it were, in the whole enterprise. We give this advice bearing in mind the greater co-operation that should exist between the rights and duties of employers and those of employees. These corresponding rights and duties must be properly integrated. The various trade unions "must not be thought

of as weapons whereby to inflict injury and bring force to bear—such action only provokes determined opposition and answering force. Their conception is not that of a river in flood which submerges all opposition, but rather of a bridge that joins together the opposite banks".*

Special care must be taken that economic progress does not outstrip that moral progress which is our duty as Christians, indeed as men. For what will it profit the worker to gain an increased supply of this world's goods and the enjoyment of the cultural amenities of life, if he neglect and lose thereby the greater goods which pertain to his immortal soul?

**Per un solido ordine sociale* (a broadcast of St. Pius XII).

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Rural Economy

(1) CANADIAN HARVEST HOME

OXEN at work on farms were a common sight in eastern Canada not so long ago. Today it is possible to drive miles in all parts of Canada without seeing even a horse. Tractors and other mechanical aids have taken over the work of crop production and harvesting. However, mechanization, necessarily a continuing process, appears to have reached some degree of stability. It is being succeeded by another kind of technological change, one more directly related to livestock and poultry production. This commonly takes the form of large, specialized enterprises for the production of hogs, poultry and eggs. Similar, if somewhat slower, transition is under way in dairy and beef production, largely as a result of improvements in the handling and concentration of forage. We are now in the early, and to some extent disruptive, stages of this latest wave of progress.

Productivity in agriculture in the post-war period up to 1957 appears to have increased at a faster rate than did that of any other industry.* As a result 37 per cent of the farm labour force was released to other employment, the physical volume of production in recent years has averaged over 40 per cent higher than

the pre-war average, our domestic requirements have been met and we have an export surplus of about 30 per cent.

A change of such magnitude over so short a time was bound to bring both problems and opportunities. One of the more recalcitrant problems seems likely to be that of the marginal farm, or marginal farming area, whose plight appears even worse in the light of the efficiency of the large scale operation. On the other hand, an over-enthusiastic approach to the utilization of the productive resources released by increased productivity has already resulted in over-production in some lines.

Specialization

Specialization renders the operator particularly vulnerable to price declines, a factor which has been an important influence in the closer integration of farm production and the means of production, and of the processing and marketing phases of the food industry. Specialization, normally a large-scale venture, also usually entails a considerable outlay of capital; vertical integration has therefore been resorted to more and more frequently as a means of obtaining credit. On the basis of taxation statistics, the number of "active taxable companies" engaged

* "Productivity, Progress and Prosperity", *Commercial Letter*, Aug. 14, 1959.

From *Commercial Letter*, The Canadian Bank of Commerce, November 16th, 1959.

in farming had just about doubled between 1946 and 1957, and will almost certainly have increased further by the present year. Corporate farming would appear to be a firmly established and growing factor within the agricultural framework.

The government has recognized the desirability of encouraging the establishment and maintenance of farm units of economic size by the passage of the Farm Credit Act, which went into effect on October 5th, and which supersedes the Canadian Farm Loan Act. Under the new Act the maximum loan is raised from \$15,000 to \$20,000 for the purchase of a farm or farm improvement; a loan may be based on 75 per cent of the appraised value of the farm, as compared with 65 per cent under the previous Act; and the interest rate is fixed at five per cent. A new type of credit provides for loans on the security of the farm to borrowers between the ages of 21 and 45 with at least five years farming experience, provided the farm business to be established by the loan is an economic unit. A feature of this type of loan is that the applicant may be provided with supervision, on a cost basis, and supervision will be a requisite of any loan exceeding 65 per cent of the value of the farm. This type of loan may not exceed \$27,500. All such loans are to be repaid within 30 years and will bear an interest rate comprising the cost of the money to the Federal Government, plus a small service charge. The new Act

provides for an increase from \$120 million to \$200 million in the maximum amount which can be borrowed from the Minister of Finance for lending operations.

Fewer on the land

The number of persons engaged in farming continues its long-term decline. The all-status group, that is, proprietors and paid and unpaid workers, was estimated to total 824,000 in August of this year, a drop of 44,000 or five per cent from last year and of 136,000 or over 14 per cent since 1955. The breakdown as between "all status" and "paid workers" suggests indirectly that the number of farms is continuing its decline as the average size of operation rises. While the total employed labour force on farms was declining by more than 14 per cent over the period, the paid labour was increasing by 26,000 or 18 per cent, or from about 15 per cent of the total to 20 per cent in the present year. The scale and nature of the operations carried on would influence the size of the paid labour force. The labour requirements of a 300-acre farm are obviously greater than one of 50 acres, and those of a mixed farming operation more than of one growing only grain. The relatively greater importance of livestock, poultry and dairy farming, especially in the past two years, and an indicated increase in scale of operations, seem, therefore, to be mirrored in the shifting outlines of the labour force.

(2) AGRICULTURE IN WESTERN NIGERIA

THE Western Nigerian Government has announced a dramatic technological speed-up of its agricultural production in order to satisfy new needs created by the Region's rapidly expanding population and rising standard of living.

The accelerated programme is a key phase in the new £165 million Western Nigerian Five Year Development Plan. The agricultural programme is "designed to ensure that

food supplies expand and improve to keep pace with increases in population, rising living standards and changes in tastes, and the need to expand production for export to ensure that Western Nigeria's rising demand for imports can be met partially by expanded overseas earnings." The increased production programme is keyed to a wider dissemination of technological knowledge.

From News from Western Nigeria.

(3) MARKETING OF FRUIT AND VEG.

A NUMBER of committees, both official and unofficial, have considered the problem of the marketing of fruit and vegetables. In general such committees have tended to point to the tortuous inefficiencies of the system but balk at the idea of doing anything about it. We suspect that the trouble has always been that such committees tend to think in terms of economics rather than in terms of marketing, and to the economist Covent Garden and similar places come closer to the sort of situation he has familiarised himself with in text books than any other.

In the second place, previous investigations have, we feel, underestimated the effects of what might be described as the fragmentation of the industry, by which we mean the

division of growers and retailers, and to a lesser extent wholesalers in very small units. Many of the problems which have perplexed the committees are already part way towards solution, where the large chain stores buy direct from large co-operatives of growers. In practice, for example, the price of apples in these retail outlets does not reflect faithfully the ups and downs of the market price, but is much more stable, while the sheer size of the operation itself has led to considerable economies in scale. Furthermore, the reputation of the store giving a guarantee of quality to the housewife, is seen by her as a sufficient justification for any slight variations in price between those stores and outside retailers.

From British Farmer (National Farmers' Union of England and Wales), October 10th, 1959.

(4) TRENDS IN CROP YIELDS, UNITED KINGDOM

Crop	Average yields			Increase 1935-9 — 1953-7 per cent
			cwt. per acre	
Wheat ..	18.1	24.7		36
Barley ..	16.7	23.3		40
Oats ..	16.3	19.5		20
	tons per acre			
Sugar Beet ..	8.8	11.4		30
Potatoes ..	6.8	7.7		13

from the *Farm Economist* (Agricultural Economics Research Institute), 1959

Anglo-Soviet Trade Prospects

by M. R. KUZMIN, Deputy Minister of Foreign Trade of the U.S.S.R.

DURING the first nine months of 1959 alone Soviet foreign trade organisations already purchased from British firms various commodities to the value of almost £110 million, whereas during the whole of 1958 we purchased from British firms goods to the approximate value of £80 million.

During this same period British firms purchased Soviet goods to the value of only £62 million, which is merely on a par with the level of last year's purchases.

Such a situation cannot prevail in trade for long, the parties concerned must take the appropriate measures to ensure mutual interests in this trade, as provided for by the five-year agreement.

In our view, one of these measures could be the purchase by British firms from the Soviet Union of petroleum products, which is a traditional item of our exports to Britain, equipment, and a number of other commodities in the purchase of which certain British firms are

showing interest.

Soviet foreign trade organisations are experiencing considerable difficulties in the sale on the British market of such consumer goods as vodka, motor cars, watches, cameras and certain other items covered by the agreement. To some extent this can be explained by the fact that these organisations are putting these goods on the British market for the first time, and they do not yet possess the necessary experience for their sale on this market. On the other hand, it must be said that British firms show no particular zeal in purchasing these goods from us.

The Soviet side will completely fulfil its obligations under the agreement for the exchange of consumer goods as regards the purchase of goods from Britain, if the prices and other conditions are suitable. But you must also understand our desire to ensure, on a reciprocal basis, the sale of Soviet consumer goods on the British market, as provided for under the agreement.

From Soviet Embassy, 4th December, 1959.

Cairo and Jerusalem : New Voices

NO one—least of all the Israelis—will quarrel with the remarkable speech which President Nasser delivered last November at the Cairo University's "Day of Knowledge". It was probably the first statement of President Nasser's intentions since he came to power which in its broad concept of the future of the Middle East was in complete harmony with Ben-Gurion's outlook on these matters. It would be, of course, foolish to overstress the immediate importance of this turn in events, but it would be no less unwise to overlook its significance.

For the first time it becomes possible to discuss the dreary Arab-Israeli disputes in a new dimension. For quite independently and separately, Ben-Gurion in Jerusalem and Nasser in Cairo have reached the same revolutionary conclusion: that there is no hope of solving the problems which face their respective peoples without making the fullest use of modern knowledge, science and technology. This does not mean that the conflict between the United Arab Republic and Israel is disappearing, or that the threats which are regularly uttered either from Baghdad or Cairo are without menace. Life is not that simple.

New Plane

But it does suggest that this conflict is moving onto another plane;

From Jewish Observer and Middle East Review, November 27th, 1959.

it is shifting from incidents on the border to the universities and scientific institutes. For this is the essence of Nasser's speech: the race is on. The battle for know-how has begun between the thirty million citizens of the United Arab Republic and the two million Israelis. And as Nasser now understands, in this race, knowledge counts for more than numbers.

The Israelis are now also acutely aware of this equation. They have a considerable advantage at the moment thanks to the foresight which produced their scientific base at Rehovot, the Agricultural Research Station, the Sieff and Weizmann Institutes, which created the technological centre in Haifa and the university in Jerusalem. But Israel cannot afford to rest on its scientific laurels, nor to be complacent about its research and development. The Shimshoni report had some hard things to say on this subject, and the Israel Government has taken immediate steps to carry out the Shimshoni recommendations so as to make the most of its scientific potential. This is no time for complacency.

For as Sir C. P. Snow pointed out in his remarkable Rede Lectures this year, "there is no evidence that any country or race is better than any other in scientific teachability:

there is a good deal of evidence that all are much alike. Tradition and technical background seem to count for surprisingly little." There are no natural advantages in this field.

In itself, therefore, there is no harm in the keen rivalry between Egypt and Israel in the arena of science and technology. In fact, it could do much good to both of them if they are forced to turn with ever greater emphasis to the development of knowledge and the scientific education of their people. But the ultimate test will be the purpose to which this knowledge and scientific know-how will be put. Sir Charles in his lectures* which had such a world-wide impact, has no doubts about this. It is possible, he holds, to carry through the scientific revolution in the Middle East within fifty years; possibly in half that time. And it is the only way to overcome the dangers of war and over-population and to bridge the gap between the rich and the poor countries.

Can Nasser succeed?

This has also been, all along, Ben-Gurion's vision of the reclamation of the Negev—and of the varied people of Israel. It now seems to be also Nasser's vision of solving the otherwise insoluble problems of population and poverty in Egypt. But if that is so, then the practical

measures to be taken must match the needs of the vision.

In Israel it means deepening the scientific education of the people—at present it is far too concentrated on top in the learned institutions, and far too neglected lower down on the elementary, secondary and high school levels. The Soviet Union and the Americans have shown in recent years that there is no other way out but to begin at school; later is too late. The Shimshoni Report dealt adequately with the problem of science and industry; a similar initiative is now required to deal with science in the Israeli educational system.

In Egypt, the problem is much greater and much more urgent. Can President Nasser now impose his rational criteria, his emphasis on knowledge and science, on his irrational press and especially on his radio propaganda? Can he now turn the instruments of subversion which operate in the Arab world, into channels of reason and constructive know-how? Can he, above all, reform Egypt's educational institutions and methods, ridden as they are with propaganda and the second-rate, into the means of directing the nation to its new target of knowledge and development? And, can he bring himself now to see in Israel, not an enemy, but a partner in the reclamation of the Middle East and of its peoples?

* *The Two Cultures and the Scientific Revolution*, by C. P. Snow (Cambridge University Press) 3s.

Trade and Aid

VIET-NAM'S ECONOMIC SITUATION

*From a speech to the Colombo Plan Conference in Djarkata by
Mr. Vu Van Mau, Foreign Secretary to Viet-Nam.*

THE difference between the levels of economic development of advanced and under-developed countries has been continuously increasing, owing, on the one hand, to the natural process of growth of advanced economies, and on the other hand to the deterioration of the terms of trade, to the detriment of countries which are suppliers of primary products. Yet the world economy cannot attain full prosperity as long as there remains a great discrepancy between the levels of economic development in the various members of the international community.

Full employment in advanced countries requires wide markets. Let us remember that South and South East Asia account for more than one half of the world's population: therefore I am sure that no system of trade and payments would be satisfactory unless the countries of this area, although under-developed, have sufficient purchasing power. Full employment in industrialized countries is somewhat connected with the prosperity and purchasing capacity of South and South East Asia.

These considerations lead to the conclusion that the traditional and narrow economic concept of individual profit should be replaced by one of co-operation and of collective

prosperity. The binome "trade-individual profit" is to be substituted by the binome "trade-co-operation".

Loans replace Aid

We have not failed to notice that during recent years, loan schemes have tended to replace direct aid as the most common form for mutual assistance. Several international organizations such as the International Bank for Reconstruction and Development, the Development Loan Fund, participate in this policy of providing credit for economic expansion.

These two agencies provide long term and medium term loans, at moderate rates of interest, and grant easy terms of payment: however their concern for the safety and protection of their capital is such that it makes it difficult, if not practically impossible, for under-developed countries to meet the conditions of the loans although the loans are indispensable for the attainment of their economic objectives. Now, if lending agencies add some more conditions, for instance if they lay down that the loaned money can only be used in payment of goods and services purchased in the lending country, then the benefit of low interest rates may be more than cancelled out. As a matter of fact, in such a case, if the prices of goods

and the cost of services are not competitive and are higher than the world price, the real value of the loan would be less than it appeared to be and the rate of interest should be considered higher in the same proportion.

Mutual Exchange

We understand perfectly why lending countries wish to see the loans which they make be used for purchasing their goods and their services, because, as I have said, we believe that economic prosperity depends to a large extent on co-operation and mutual exchange. But we think that competitive prices of manufactured goods are a prerequisite of general prosperity.

I should like to say also that the terms of loans from the Development Loan Fund are already relatively easier to meet than those for loans from the International Bank for Reconstruction and Development. Yet they are still, in my opinion, too rigid and too difficult for any under-developed countries to meet. We therefore welcome the recent agreement to create the International Development Association, which will grant loans on easy conditions, and allow their payment in local currencies. But if this new agency fails to relax its technical requirements and to adopt more flexible procedures than the Development Loan Fund, we are afraid that many under-developed countries will not be able to qualify for loans, and the objectives of the agency will not be achieved.

Besides, the standard terms and conditions for loans could not be applied to the countries of South and South East Asia without inflicting upon them a sort of handicap, because such general rules would not take account of their particular geographical situation. We think it proper for the International Development Association to assign, *a priori*, a quota for each region at the beginning of each fiscal year, and we suggest that this quota should be based in particular on the capital demands of the region.

One quarter of Mankind

The member countries of the Colombo Plan comprise nearly one quarter of mankind, their natural resources as well as their human potentials are far from being fully used, and they should be allocated a large part of the overall credit. A recent report of the United Nations Commission on Technical Assistance has given significant figures in that respect (1958 annual report). According to this document, the total expenditure on projects between 1950 and 1958 amounted to 50.4 million dollars for Asia and the Far East. If expenditure for the Middle East amounting to 31.8 million dollars is added to the first mentioned figure, we find that the share of Asia totalled 82.2 million dollars, while the one of Latin America's share was only as high as 42.4 millions, that of Africa 14.8 millions, and that of Europe 12.2 millions.

We think that technical assistance to under-developed countries must be accompanied by proper capital aid. Foreign investments can only come later, once technical assistance

and capital aid have reinforced the economic structure of the receiving country to such an extent as to allow substantial profit and greater security for the invested capital.

Oil in the Home

DURING the past five years there has been something verging on a revolution in British homes which have, as it were, suddenly discovered the virtues of oil fuels in house warming. There are two ways in which oil heating is utilised in private houses, the first being through the medium of oil-fired central heating.

This method of heating has been

much more extensively taken up in some countries, notably the U.S.A., but within the past few years there has been a remarkable increase in its use in Britain. Between 1954 and 1958 the consumption of oil fuel for this purpose was more than trebled, rising from 45,000 tons in 1954 to 136,000 tons in 1958. This year a further increase can be anticipated.

*From P.I.B. News Letter (Petroleum Information Bureau),
November, 1959.*

OIL

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T.V. Across the World

STATIONS OR TRANSMITTERS BROADCASTING TO THE PUBLIC

Country	1953	1954	1955	1956	1957
AFRICA					
Morocco (former French Zone) . .	2	2	2	—	—
NORTH AMERICA					
Canada	12	9	26	33	40
Cuba	7	10	23	23	—
Dominican Republic	1	1	1	1	1
Mexico	12	14	12	12	12
United States	356	439	482	511	544
SOUTH AMERICA					
Argentina	1	1	1	1	1
Brazil	3	4	—	—	6
Colombia (including relay stations)	—	3	4	7	8
Uruguay	—	—	—	1	—
Venezuela	—	3	3	3	4
ASIA					
Japan	7	6	7	15	24
Philippines	1	2	2	2	2
Thailand	—	—	1	1	1
EUROPE					
Belgium	—	4	4	4	4
Czechoslovakia	1	1	1	3	3
Denmark	1	1	2	3	4
Finland	—	—	1	3	3
France	4	5	11	16	25
East Germany	1	4	—	—	—
West Germany	29	61	68	63	75
Saar	—	1	1	1	1
Italy	7	11	15	64	173
Luxembourg	—	—	1	1	1
Monaco	—	1	1	1	1
Netherlands	2	2	2	2	4
Portugal (including the Azores and Madeira)	—	—	—	1	3
Spain	1	1	1	1	1
Sweden	2	2	2	3	3
Switzerland	1	3	3	4	6
United Kingdom	9	12	16	19	24
OCEANIA					
Australia	—	—	—	5	6

From *The Eastern Economist*, November 20th, 1959.

The Collapse of Theory

by JOHN VAIZEY.

ON the left, there has been a collapse of theory. First, there was disillusion with and then revulsion against the USSR. Then it became clear that the liberal capitalism of modern Europe *can* be associated with full employment, stable prices, a rapid rise in the standard of living, peace between the capitalist nations and a liberal democratic internal polity. (Please contrast this not only with Lenin, but with Laski.) Then, there has been an almost complete failure to attract support from the growing sections of society (the archetypal right-wing voter is a young, attractive mother in a pleasant suburb, whose husband has a good job in an electronics factory, and who works part-time in a hairdressers' to help pay for the car). In these circumstances what has social democracy to say?

Living decently

I want now to no more than hint at a few problems which we could face. First, the question of *how* to live decently in big urban areas deserves far more study—and more radical answers—than has yet been devoted to it. An hour to get to work in a crowded bus, ugliness,

loneliness—these are newer problems than slum-dwelling posed, but just as real. Next, how to get real participation in the democratic process—all over Europe there seems to be a decline in democratic participation and a growth in the willingness to leave things to experts. Third, Africa and Asia loom on all our horizons. Fourth, the control of the new European agencies which will eventually supersede so much national government is a problem we have not begun to consider. Fifth, how to get mass support for the limited number of radicals in any society is a central issue. Sixth, is there such a thing as a sense of community which is being neglected in the decent but often rather isolated lives of Europe's new suburban citizens?

Not ogres

I cannot suggest any answers at this stage. It seems to me more important to face the reality that right-wing governments are not the ogres that we sometimes pretend. We also need a theory of society. Above all, however, we must be clear about our attitudes—what is the touchstone by which you tell a socialist? Emotion is not enough.

From Socialist Commentary, December, 1959.

Readers' Commentary

SALES OF GOLD BY THE INTERNATIONAL MONETARY FUND

From: "A Merchant Adventurer", New York, N.Y., U.S.A. (name and address supplied).

NOT enough attention has been paid to the fact that in recent years the I.M.F. has been selling the gold stock subscribed by some of its members, to others, because a country which consistently runs a balance of payments surplus and makes loans through the Fund eventually finds that its currency subscription to the Fund has all been drawn down by other members. If it (perhaps anti-socially) continues to run a trading surplus by making loans, the only way this can be done within the Fund is for the subscription of other members to be paid over to it. However, according to the articles of the Fund, the loaning member can insist on 'convertible' currencies or gold. But what is a 'convertible' currency under these circumstances? Evidently only one which the member chooses to accept. That is to say it is a unilateral decision.

So far the only case in which a member's currency quota has been exhausted by other members is that of the U.S.A. They did not choose to regard anyone else's currency as convertible but insisted on payment in gold before they would make any more dollars available to the Fund.

If the exhausted currency is not replenished either by 'convertible currencies' or gold it means the surplus country must curtail its exports. In other words what has happened,

in the case under consideration, is that other countries' gold of which they are short has been used to finance American exports. What have these countries received in return for divesting themselves of this precious asset? Nothing! That is why Switzerland very sensibly refused to join the Fund. Her representative made this very point—that Switzerland—one of the world's largest gold holders—did not wish to see her holding drained away to 'bad creditors'.

During 1956/57 \$800,000,000 worth of gold was withdrawn by the Fund from international circulation and paid to the U.S.A. to finance its overseas 'aid' and military and educational occupation programmes. But the U.S. is 'bleating'—to use its own expression—that its aid is being used to finance other people's exports. This, of course, so long as the U.S. continues its current account surplus through subsidised exports and tied loans through the Export-Import Banks, is not true, it merely means that the dollars are spent by the borrower's supplier.

P.S.—Since writing this the I.M.F. has announced a third sale, making the total gold withdrawn by the U.S. the huge sum of £1,100,000,000. Further comment on this type of 'aid' is surely unnecessary.

MESSAGES—continued from page 4

FROM THE HIGH COMMISSIONER FOR PAKISTAN,

Lieut.-General Mohammed Yousuf.

The *Economic Digest* has been a very valuable journal containing, as it does, a review of all current subjects which are important from the economic point of view. I have considered it of great importance because it has been focusing attention upon the problems of and on matters of importance to various countries within the Commonwealth. While we all wish luck to such associations as the European Free Trade Area, we are of the view that it would not be desirable to forget that the United Kingdom's trade with Commonwealth countries is about 40 to 50 per cent of its total trade, and her trade with the whole of Europe comes about half of her trade with the rest of the Commonwealth countries.

The bias the *Economic Digest* has been showing for matters of economic interest to Commonwealth countries is now proposed to be underlined by the change of its title to *Commonwealth Digest and World Economic Review*. I wish it luck and I hope it continues to be as useful as heretofore.

31st December, 1959.

**FROM THE HIGH COMMISSIONER FOR RHODESIA
AND NYASALAND,**

I welcome the new title and Commonwealth look of the *Economic Digest*, which reflects the increasing interest that is now being shown generally in the British Commonwealth.

In one young Commonwealth country a dramatic development will take place early in 1960. Power will begin to flow to the Copperbelt of Northern Rhodesia from the vast hydro-electric scheme at Kariba on the Zambezi river, and thereafter the rapidly expanding industries of the Federation of Rhodesia and Nyasaland will have the stimulus and security provided by this great new source of energy.

This kind of achievement, leading to greater prosperity and higher standards of living, is typical of the developments taking place in many Commonwealth countries today and the information given by the *Commonwealth Digest and World Economic Review* about them will stimulate interest in, and spread wider a knowledge of, Commonwealth affairs.

I wish the *Digest* in its new form all success.

Gilbert Rennie.

continued on page 40

Digest Reviews

TWO CANADIAN STATESMEN

Friends: Sixty Years of Intimate Personal Relations with Richard Bedford Bennett, Viscount Bennett of Mickleham, one-time Prime Minister of Canada. A Personal Memoir with an Appendix of Letters. By Lord Beaverbrook (Heinemann; 12s. 6d.).

The controversy over common market and free trade area in Europe had a Commonwealth counterpart in the dispute between Lord Beaverbrook, apostle of Empire Free Trade, and R. B. Bennett, the architect of Ottawa, who in his first speech at the Imperial Conference of 1930 declared that "all that is helpful in Empire Free Trade may be secured by Empire preferences".

True, the preferential tariff suits a diffuse association of sovereignties better than a customs union, and this is the argument against the "no-new-preference" rule in GATT and too logical a development of the European Economic Community. Yet these two great Canadians and great friends who made a home in England would surely both deplore that Commonwealth economic unity is not keeping pace with that of parts of Western Europe. Both knew the danger of American penetration, as did Sir John A. Macdonald before them and Mr. Diefenbaker in our own day; they shared a vision, still attainable, of a mighty union of powerful states.

This moving memoir reveals something of its author's generous humanity and will be appreciated as a delightful essay in the biographer's art. It is also an essential contribution to the study of the British Commonwealth, a lament for opportunities lost which may inspire younger men to seize those that will yet be offered.

GOLD TODAY

The Role of Gold in the World Economy, by Dr. M. Kriz. (Princeton Pamphlet).

One would expect anything from one of the senior members of the foreign department of the First National City Bank of New York to be authoritative and informative. Yet this pamphlet, despite its title, evades discussing the role of Gold today. A few well known facts as to the size of various countries gold holdings and their domestic financial systems are reproduced, supplemented by an irrelevant discussion whether the present system constitutes a gold standard. But as to the role of gold in the international trading system — not a word! Merely a dishearteningly superficial discussion of its price, concluding that it is 'just right'. (It was of course the First National City in their Monthly Letter who reproduced a graph by the Bank of International Settlements purporting to extrapolate the price of gold from the Middle Ages until today and concluding the price was 'just right'.)

But in this case the argument was self-defeating. For if the price is 'just right' in terms of sterling it must be 'just wrong' in terms of francs and dollars—much too high in francs and too low in dollars.)

Why not mention that gold plays a vital role in individual saving and international reserves and that without it neither the pound nor the European currencies could be kept convertible? That, under the present system, only the fortunate chance that Britain has access to South African Gold enables her to pay her debt in acceptable currency to the U.S., and sell some more, to the Continental Europeans who in turn send it to America? That gold is the Commonwealth's largest export (\$600,000,000—\$700,000,000) and doubling its price would add perhaps \$1,000,000,000 to the Commonwealth purchasing power, allowing a certain increase in production due to increase in price. This would have an enormously beneficial effect on American exports. But it would mean the end of dollar dominance and the pound able to look the dollar, after 40 years, once more in the face, without getting punched on the nose.

As it is, only sales of gold by Russia (\$750,000,000) have enabled the pound to remain convertible. Otherwise British reserves would have sunk far too low. And without a convertible pound the world economy must contract.

Surely Dr. Kriz could have mentioned these things? One would not expect him to go farther and

realise what a suicidal policy for his own country his views represent. If the United States continues its boycott of gold, as it has attempted to boycott sterling and all other foreign currencies, they will make themselves independent of gold and the 20,000 tons in Fort Knox a vain asset. In fact this is what sterling is now in the process of doing. For instance, the next instalment of the U.K. debt is almost certain to be paid in dollars and not, as heretofore, in gold.

Love of gold is not enough to make a patriot: America needs better advice than this.

TRADING WITH THE SOVIET UNION

Trading with the Soviet Union, London Chamber of Commerce (Russian Dept.); 5s. post free.

Interest in trade with Russia has increased greatly following the signature of the Anglo-Soviet Trade Agreement and the announcement of the plan for reciprocal trade fairs in Moscow and London for 1961.

A comprehensive guide for British firms has been prepared by the Russian Department of the London Chamber of Commerce under the title "Trading with the Soviet Union." It describes the Soviet trading system, the market potential and methods of trading. It also gives guidance on such matters as export/import licensing contract terms, documentation, patents, designs and trade marks, advertising and postal and telecommunications services.

The appendices gather together a mass of information only obtainable previously from many different sources of reference.

INVESTMENT AND DEVELOPMENT

Legal Aspects of Foreign Investment. Edited by Wolfgang G. Friedmann. (Stevens; £7 7s., in the U.K.).

Rivers in International Law, by F. J. Berber. Published under the auspices of the London Institute of World Affairs. (Stevens; £2 5s., in the U.K.).

The Reconstruction of Iraq: 1950-1957, by Fahim I. Qubain. With a Foreword by Robert Strausz-Hupe. Published under the auspices of the Foreign Policy Institute at the University of Pennsylvania. (Atlantic Books: Stevens; 35s.).

A large and rising volume of foreign investment on terms fair to all concerned and above all respecting the sovereignty of the receiving countries is a prime need of our time. Professor Friedmann, of Columbia University, assisted by Mr. Richard C. Puge, of the New York Bar, has therefore rendered an international service by his editing of what is a monumental piece of careful research. The legal conditions of no less than forty selected countries are surveyed by authorities on their subject.

Competitive aid and investment are part of our divided world, so are the bounty of great rivers, which are too often acrimoniously disputed by

riparian powers. The Nile, the Jordan and the Indus are flagrant examples. Professor Berber's book is thus of value to the politician, diplomatist and economist as well as to the student of world affairs.

For a particular survey of a developing economy Dr. Fahim I. Qubain's is warmly commended. Its value is only partially diminished by its publication before the Iraqi revolution, whose leaders owe more to the foundations laid by the British Mandatory and monarchial regimes than they, or the author, will admit.

GRAVE ALLEGATIONS

Gangrene. With an Introduction by Peter Benenson. (Calder-books.)

This little book, or rather pamphlet, is disturbing and unpleasant to read. It makes grave allegations of the use of torture by British and French public servants and soldiers in the suppression of colonial insurrection. The title *La Gangrène* was that of a banned publication of *Les Editions de Minuit* attacking French security officers for horribly tormenting Algerian students; but Kenya and Cyprus are brought in in such a way as to suggest that the motive for justification may be not only the exposure of cruelty and injustice but the discrediting, in the interests of the anti-colonialism of East or West or both, of two Powers, the discharge of whose responsibilities in Africa is vital to the peaceful advancement of that Continent. There are other countries and empires to which attention might have been turned.

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"Outer Seven"

The E.F.T.A. Convention Summary and Explanation, published by Information Division, Royal Swedish Ministry for Foreign Affairs. (1)

O.E.E.C.

Economic Conditions in Member and Associated Countries of the O.E.E.C.—United States—O.E.E.C.

Study covers 18 months period ending mid-1959. (2)

MESSAGES—continued from page 35

FROM THE HIGH COMMISSIONER FOR THE UNION OF SOUTH AFRICA,

Dr. A. J. R. van Rhijn.

A publication such as yours which brings together in so readable a form valuable information from all parts of the world is of particular interest to South Africans.

Most people do not realise that South Africa has become a significant trading nation. In relation to size, there are few greater importing and exporting countries. Her total external trade amounts now to some £1,200,000,000 a year, and as a percentage of national income her exports are the highest in the world—38.2 per cent compared with, for instance, 21 per cent for Canada.

You will understand in these circumstances that reliable intelligence on economic trends in Commonwealth and other countries is of first importance to businessmen in South Africa.

31st December, 1959.

Code of Liberalisation. O.E.E.C.

A revised edition brought up to date to 1st August, 1959. (3)

German Industry

The West German Economy. Institute of German Industry.

A useful guide to West Germany's economic and social structure. (4)

E.C.S.C.

"There is Hope in Europe" by Piero Malvestiti. European Coal and Steel Community.

Addresses delivered on the occasion of the inauguration of the High Authority, September, 1959. (5)

P.E.P.

The British Shipping Industry. P.E.P.; 4/-.

A comprehensive survey of British shipping. (6)